

Message Text

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APPROVED BY EB:JLKATZ

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FM SECSTATE WASHDC

TO USDEL SECRETARY IMMEDIATE

C O N F I D E N T I A L STATE 234127 TOSEC 270475

STADIS//////////

EXDIS FOR SECRETARY THROUGH ROGERS FROM KATZ

E.O. 11652: GDS

AGS: EAID,IBRD

SUBJECT: ACTION MEMORANDUM: FUNDING OF THE FIFTH
REPLENISHMENT OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION
(IDA V). (S/S 7619763)

1. PROBLEM: THE CURRENT IDA IV REPLENISHMENT PROGRAM
EXPIRES JUNE 30, 1977. ALTHOUGH NEGOTIATIONS FOR A FIFTH
THREE-YEAR REPLENISHMENT ARE CONTINUING, THE IMPORTANT
ISSUES OF SIZE AND BURDEN SHARING REMAIN UNRESOLVED, AND
UNDER THE EXISTING SCHEDULE WILL PROBABLY NOT BE RESOLVED
UNTIL NEXT SPRING. THIS WOULD LEAVE ONLY A COUPLE OF
MONTHS FOR CONGRESSIONAL AUTHORIZATION OF IDA V. A
CONGRESSIONAL DELAY WOULD RESULT IN A HIATUS IN IDA
DISBURSEMENTS, WITH MAJOR BLAME ON THE U.S. SUCH A PROSPECT
NOT ONLY WOULD HURT IDA PROGRAMS, CONCENTRATED IN THE POOR
COUNTRIES, BUT WOULD UNDERCUT U.S. LEVERAGE AND CREDIBILITY
IN OTHER AREAS OF THE NORTH/SOUTH DIALOGUE. A KEY DECISION
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POINT FOR IDA IS THE ANNUAL BANK AND FUND MEETINGS IN
MANILA OCTOBER 4-8. DEPENDING ON OUR STRATEGY, THIS MAY
REQUIRE A PRESIDENTIAL DECISION ON A BUDGET LEVEL FOR IDA
FOR FY 78.

2. BACKGROUND: CONTINUED U.S. INFLUENCE IN THE NORTH/
SOUTH DIALOGUE REQUIRES A MAJOR COMMITMENT TO RESOURCE

TRANSFERS FOR POORER LDCS. OUR LIMITED ABILITY TO BE FORTHCOMING ON LDC DEMANDS ON DEBT AND COMMODITIES PLACES FURTHER PRESSURE ON BASIC ELEMENTS OF THE U.S. FOREIGN ASSISTANCE PROGRAM TO DEFLECT THE IMPACT OF THESE LDC POSITIONS. WHILE WE WISH TO MAINTAIN AN APPROPRIATE BALANCE BETWEEN BILATERAL AND MULTILATERAL ASSISTANCE, LDC PERCEPTIONS OF U.S. AID PERFORMANCE WEIGH HEAVILY ON OUR SUPPORT FOR THE WORLD BANK/IDA. THUS IN THE ABSENCE OF A CLEAR COMMITMENT FOR IDA FINANCING AT A REASONABLE LEVEL, LDCS WILL VIEW OUR OVERALL SUPPORT FOR AID AS WANING REGARDLESS OF ALTERNATIVE AID INITIATIVES.

3. WITH IDA IV EXPIRING NEXT JUNE, THERE IS CONSIDERABLE PRESSURE FOR PROMPT ACTION ON IDA V. MCNAMARA AND OTHER DONORS HAVE BEEN PRESSING FOR A MAJOR INCREASE FOR IDA V IN THE RANGE OF \$8-9 BILLION OVER THREE YEARS. THIS WOULD BE A ROUGH DOUBLING OF IDA IV IN DOLLAR TERMS, AND A SUBSTANTIAL REAL INCREASE AFTER TAKING ACCOUNT OF INFLATION. OUR PRESENT SHARE OF IDA IV IS ABOUT ONE-THIRD AND DOWN FROM ABOUT 40 PERCENT IN EARLIER YEARS. ALTHOUGH WE EXPECT TO OBTAIN SOME OPEC PARTICIPATION IN IDA V, IT IS UNLIKELY THAT THE U.S. SHARE WILL SLIP MUCH BELOW 30 PERCENT. THUS OUR SHARE OF IDA V WOULD BE \$2.4-\$2.7 BILLION OVER 3 YEARS.

4. OF EQUAL IMPORTANCE WITH THE LEVEL OF FUNDING, HOWEVER, IS THE TIMING OF THE RENEGOTIATION AS IT RELATES TO CONGRESSIONAL STRATEGY. AS THE INTERNATIONAL NEGOTIATION IS NOW SHAPING UP, WE WILL NOT REACH AGREEMENT WITH OTHER COUNTRIES ON LEVELS AND SHARES UNTIL NEXT SPRING. MORE-OVER, OTHERS WILL INSIST THAT WE AT LEAST OBTAIN CONGRESSIONAL AUTHORIZATION BEFORE MAKING THEIR CONTRIBUTIONS. THIS WILL PUT US IN AN EXTREMELY TIGHT SQUEEZE
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WITH CONGRESS ON A MAJOR NEW DEVELOPMENT COMMITMENT STRETCHING OVER THREE YEARS.

5. THE SITUATION IS FURTHER COMPLICATED SINCE WE ARE TWO YEARS BEHIND IN U.S. PAYMENTS FOR IDA IV, WHICH WILL RUN THROUGH BOTH FY 78 AND FY 79. THIS CATCHING UP TOGETHER WITH WHICHEVER OPTION WE CHOOSE FOR IDA V WILL BE AN UNAVOIDABLE MAJOR INCREASE IN IDA APPROPRIATIONS FROM \$375 MILLION IN FY 77 TO OVER \$600 MILLION IN FY 78 IF WE ARE TO MAINTAIN ANY CREDIBLE LEVEL OF SUPPORT FOR WORLD BANK/IDA. IF WE SHOULD BE DELAYED IN OUR AUTHORIZATION AND APPROPRIATION EFFORTS NEXT SPRING AND SUMMER, IDA WILL FACE A HIATUS IN ITS FUNDING CAPABILITY AND THE U.S.

WILL BEAR THE MAJOR BRUNT OF BLAME.

6. TREASURY OFFICIALS ARE PREPARING PROPOSALS FOR SECRETARY SIMON AS THEY RELATE TO HIS PARTICIPATION IN THE BANK AND FUND MEETINGS IN MANILA OCTOBER 4-8. IN VIEW OF THE LIKELY LINKAGE TO FY 78 BUDGET LEVELS, OMB IS CONSIDERING PUTTING A MEMO TO THE PRESIDENT BY THE END OF THE WEEK, BUT IT IS NOT CLEAR WHO WILL PREPARE IT.

THE OPTIONS

1. PRESS AHEAD WITH IDA V NEGOTIATION SO THAT IDA V CAN BEGIN AS SOON AS POSSIBLE, HOPEFULLY BY MID-1977. THIS WOULD REQUIRE INTERNATIONAL AGREEMENT ON LEVEL AND BURDEN SHARING BY EARLY NEXT SPRING, CONGRESSIONAL AUTHORIZATION FOR THE THREE-YEAR IDA V PROGRAM BY LATE SPRING AND APPROPRIATION OF THE FIRST YEAR'S CONTRIBUTION BY SUMMER OF 1977. OTHER COUNTRIES WOULD PROBABLY BE WILLING TO MAKE THEIR INITIAL CONTRIBUTIONS ONCE THE AUTHORIZATION PROCESS WAS COMPLETED IN THE U.S. AND THERE WAS REASONABLE EXPECTATION FOR AN EARLY APPROPRIATION. IN TERMS OF OUR BUDGET REQUEST, WE WOULD LIKELY WANT TO SPREAD OUT OUR CONTRIBUTION TO THE THREE-YEAR IDA PROGRAM OVER 4 YEARS, SO AS TO ACCOMMODATE THE TWO REMAINING INSTALLMENTS WE OWE ON IDA IV WITHOUT TOO SUDDEN A JUMP IN APPROPRIATIONS FOR FY 78. THE BUDGET REQUEST FOR FY 78-81 WOULD BE AS FOLLOWS (THE RANGE GIVEN DEPENDS ON WHETHER THE TOTAL IDA V IS \$2.4 BILLION CONFIDENTIAL

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OR \$2.7 BILLION):

	FY 78	FY 79	FY 80	FY 81
IDA IV	375	375	--	--
IDA V	400-450	400-450	800-900	800-900
TOTALS	775-825	775-825	800-900	800-900

PROS

-- THE ADMINISTRATION WOULD DEMONSTRATE ITS INTENTION TO MAINTAIN U.S. LEADERSHIP IN THE NORTH/SOUTH DIALOGUE BY UNDERTAKING A SUBSTANTIAL IDA V COMMITMENT ON SCHEDULE.

-- TACTICALLY WITH THE CONGRESS, IT WOULD ENABLE US TO PRESENT THE SUBSTANTIAL INCREASE IN IDA FOR FY 77 (WHICH WILL BE UNAVOIDABLE IN VIEW OF THE DOUBLE UP WITH

IDA IV SPILLOVER), IN THE CONTEXT OF A MAJOR NEW PROGRAM LINKED TO U.S. LEADERSHIP AND RESPONSIBILITIES IN THE NORTH/SOUTH DIALOGUE.

-- IN THE FACE OF A PENDING OR ACTUAL IDA HIATUS IN IDA DISBURSEMENTS, WITH CONSEQUENT NEGATIVE RLACTION FROM ABROAD, ADDED PRESSURE WILL BUILD ON CONGRESS TO ACT PROMPTLY.

CONS

-- IF THERE IS SLIPPAGE IN THE TIGHT CONGRESSIONAL SCENARIO, WHICH IS HIGHLY LIKELY, IDA WOULD RUN OUT OF FUNDS WITH THE U.S. BEARING THL BRUNT OF THE BLAME.

-- THL JUMP IN IDA APPROPRIATION FROM FY 77 TO FY 78 WOULD BE LARGER (FROM \$375 MILLION IN FY 77 TO ABOUT \$800 MILLION IN FY 79) THAN THE INCREASE IN OPTION 2 BLOW (\$625 MILLION FOR FY 78).

--UNDER THIS OPTION WE WOULD NOT OBTAIN AN INCREASED FY 78 IDA COMMITMENT BEFORL THE MANILA MEETINGS;
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THIS WOULD LIKELY MEAN AN EVEN MORE DIFFICULT STRUGGLE FOR BOTH BILATERAL AND MULTILATERAL INCREASES IN THE FINAL BUDGET CRUNCH IN DECEMBER.

2. NEGOTIATE A ONE-YEAR EXTENSION OF IDA IV AND POSTPONE

THE NEGOTIATION AND IMPLEMENTATION OF IDA V FOR ONE YEAR. THIS SHOULD BEST BEGIN AT THE OCTOBER BANK AND FUND MEETINGS SO AS TO BE COMPLETED IN JANUARY, FOR EARLY SUBMISSION TO CONGRESS, WITH AUTHORIZATION AND APPROPRIATION BY MID YEAR. WE WOULD THEN BE ABLE TO NEGOTIATE THE MAJOR THREE-YEAR IDA V DURING THE COURSE OF 1977, FOR SUBMISSION TO CONGRESS IN JANUARY, 1978. THIS OPTION WOULD IMPLY IDA BUDGET REQUESTS FOR FY 78-82 AS FOLLOWS, AND WE WOULD NEED A COMMITMENT ON THE FY 78 LEVEL BEFORE THE MANILA MEETINGS:

-----	FY 78	FY 79	FY 8U	FY 81	FY 82
IDA IV	3Y5	3Y5	--	--	--
IDA IV (EXTEN-	250	250	--	--	--
SION)					
IDA V	--	--	800-900	;00-900	800-900
TOTALS	625	625	800-900	800-900	800-900

PROS

-- THIS OPTION WOULD GREATLY REDUCE THE LIKLLIHOOD

OF AN IDA HIATUS. SINCE WE WOULD ONLY NEGOTIATE A ONE-YEAR EXTENSION OF EXISTING LEVELS AND SHARES, THERE WOULD PRESUMABLY BE LESS DIFFICULTY IN INTERNATIONAL NEGOTIA-

TION AND CONGRESSIONAL AUTHORIZATION. WE WOULD ALSO GAIN TIME WITH AN EARLY START IN MANILA IN OCTOBER.

-- WE COULD USE THE ENTIRE YEAR 1977 TO DEVELOP SUPPORT IN THIS COUNTRY AND INTERNATIONALLY FOR THE MAJOR IDA V PACKAGE.

-- A ONE-YEAR EXTENSION WOULD REQUIRE A SOMEWHAT LOWER FY 78 APPROPRIATION: ABOUT \$625 MILLION COMPARED WITH \$775 TO \$825 MILLION UNDER OPTION 1.
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-- WE WOULD BE ABLE TO NAIL DOWN AN IDA IV BUDGET LEVEL FOR FY 78 BEFORE THE MANILA MEETINGS AND THEN CONCENTRATE ON NEEDED INCREASES ON BILATERAL PROGRAMS LATER IN THE YEAR. THIS COULD REDUCE PRESSURES TO TRADE OFF MULTILATERAL VERSUS BILATERAL AID LEVELS.

CONS

-- THE ADMINISTRATION WOULD STILL BE FORCED TO SEEK A SUBSTANTIAL INCREASE IN IDA APPROPRIATIONS NEXT YEAR, LARGELY BECAUSE OF THE DOUBLING UP ON IDA IV, BUT WITHOUT HAVING THE POLITICAL AND FOREIGN POLICY MOMENTUM OF A MAJOR NEW IDA V UNDERTAKING.

-- IT WOULD INVOLVE A YEAR DELAY IN THE SCHEDULED IDA V IMPLEMENTATION (THROUGH A CONTINUATION AT LOWER IDA IV LEVELS) WHICH WE WOULD HAVE TO PRESS ON OTHERS LARGELY IN TERMS OF OUR DIFFICULTIES WITH CONGRESS.

RECOMMENDATION

THAT WE SEEK A ONE-YEAR EXTENSION ON IDA IV AS DESCRIBED IN OPTION 2. IN IMPLEMENTING THIS OPTION WE WOULD TRY TO WORK OUT A JOINT APPROACH WITH TREASURY TO GO TO THE PRESIDENT IN TIME TO OBTAIN AN FY 78 BUDGET COMMITMENT ON IDA BEFORE THE MANILA MEETINGS.

APPROVE DISAPPROVE

DRAFTED:EB/IFD:EPREEG/IFD/ODF:RDKAUZLARICH; CLEARED
EB:JLKATZ; S/P:MELY; H:SGOLD3ERG; S:HCOLLUMS. ROBINSON

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